

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of

Section 257 Proceeding to
Identify and Eliminate
Market Entry Barriers
for Small Businesses

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GN Docket No. 96-113

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To: The Commission

COMMENTS

SMALL BUSINESS IN TELECOMMUNICATIONS

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SUMMARY

The barriers to entry for small business are unique to the telecommunications industry. Entrepreneurs may receive financing from private sources, or may mortgage their homes to obtain start-up capital. Consequently, less money is available to the small operator than to the larger operator, and the small operator builds his business at a slower, more deliberate pace than a company with the ability to indefinitely refinance debt. The smaller operator must show a profit relatively rapidly or risk financial ruin.

Larger companies have focussed on spectrum as a valuable commodity to be gathered and traded, while smaller operators concentrate on the value of the spectrum in its use to offer service to the public for a profit. As a result, smaller operators generally provide service to the public more rapidly than larger operators, but, due to financial considerations, are constrained in their growth.

The small operator's inability to obtain nearly unlimited financing is a distinct disadvantage at auction. Small operators may find themselves the targets of large operators in auctions, with the result that the small operators are priced out of the market. This inability to obtain spectrum hampers the small business's ability to grow. Additionally, the Commission's apparent determination to auction off all available spectrum will prevent new small operators from entering the market.

The Commission's application processing policies favor large operators. This has stymied the growth of small operators and undoubtedly discouraged market entry. Small operators were prevented by the Commission's 800 MHz freeze from filing applications with the Commission, while ESMR applicants, hoping to offer essentially the same service over a larger geographic area were permitted to file applications. Likewise, the Commission's enforcement policies have been focussed on the small operator, while larger operators are not required to provide evidence of construction and operation deadlines.

The Commission's stated intention of auctioning encumbered spectrum has created market uncertainty which has had an adverse impact on the financial value of small businesses. Such treatment does not reflect, much less reward, the valuable service small operators have provided to the public for decades.

The Commission frequently delays making a decision on petitions and pleadings filed by small businesses; this delay further exacerbates the uncertainty the small operator must navigate daily. Often when the Commission renders a decision, that decision is not in accord with Commission Rule, precedent, the Communications Act or the Administrative Procedures Act.

The Commission does not require the same level of justification for a waiver for a large business as it demands of a small operator. A small operator must demonstrate "unique circumstances" to justify grant of a waiver, but ESMR operators need not demonstrate unique circumstances.

The frequency coordination system is not adequately policed by the Commission. Some frequency coordinators create their own policies or adopt policies in conflict with the Commission's stated rules. The Commission has been reluctant to mediate disputes between coordinators and applicants.

The Commission's equipment requirements for running its electronic filing PC computer program are unrealistic for wide-spread use by small business. The program requires memory and capacity which are included only in the newest high end machines on the shelves today. It appears that no effort was made to discern and accommodate machines already purchased and in use by small operators.

The above-described difficulties have created an uncertain regulatory climate for small business which is discouraging further investment and is stifling growth. The Commission can, and should, take steps to ameliorate this problem by considering, seriously, the effects that its policies have on small business, by applying its rules equally to large and small operators, and by turning its gaze toward rewarding the prompt provision of communications service to the United States citizenry. Small operators, prevented from partaking of the fruits of Wall Street, have demonstrated their worth in the marketplace. Such service to the public should be rewarded by the Commission.

In the full enjoyment of the gifts of Heaven, and the fruits of superior industry, economy and virtue, every man is equally entitled to protection by law; but when the laws undertake to add to these natural and just advantages artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society - the farmers, mechanics, the laborers - who have neither the time nor the means of securing like favors to themselves, have a right to complain of the injustice of the Government... If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing.

U.S. President Andrew Jackson

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To: The Commission

COMMENTS

Small Business in Telecommunications (SBT), a non-profit trade association representing two-way shops, paging companies, tower owners, private carriers, CMRS operators, microwave licensees and community repeater operators; and which limits voting rights to persons and companies with annual revenues of less than \$20 million, hereby offers its comments in this proceeding. SBT is the first and only telecommunications trade organization which limits voting registration exclusively to small business.

To assist in forming the comments presented herein, SBT engaged in one of the largest independent surveys of the industry ever conducted. Over 10,000 persons and companies received a copy of the SBT Survey requesting information regarding the particulars of this proceeding. The results of that survey and the attitudes reflected therein have largely shaped the comments and opinions expressed by SBT in this proceeding and will serve as a guide for SBT's future efforts. SBT herein shares the results of its survey with the Commission in the

hope that the agency will also benefit by the insights gained and articulated by so many affected operators, licensees and regulatees.

THE DYNAMICS OF SMALL BUSINESS OPERATIONS

To appreciate the barriers to market entry experienced by small business, one must understand the nature of small business, including its inception and continuation. Without an adequate understanding of the formation and perpetuation of a small business in the provision of goods and services, the inherent and sometimes arbitrary barriers to entry are without context and meaning. As suggested within the Notice, some of the barriers to entry for small business are unique to the telecommunications industry.¹ The very nature of the industry creates problems for small businesses that are not necessarily experienced by small business in other industries,² thereby further exacerbating the problems of entry for many smaller participants.

Small start-up companies are usually the byproduct of one person's initiative. Although these businesses may receive financing from private sources, i.e. loans from family and friends,

¹ Most glaring is the requirement of large capital outlays to commence. In effect, a small operator of commercial radio facilities has the increased burden of financing its manufacturing facility (the radio facility), as well as financing inventory, sales, administrative and the like. This additional financial burden is unique to our industry as an operational threshold to beginning most small telecommunications businesses.

² Although one might be able to begin a small retail outlet based on little more than common knowledge of a particular product line, e.g. books, the small telecommunications businessman must become familiar with that which is unfamiliar to most Americans. To know that "carphones" simply exist, is insufficient. A far more technical and painstaking education is necessary for success.

the typical small business is created as an outgrowth of a single person's experience and vision.³ It is not uncommon for these entrepreneurs to employ a home loan mortgage as the source of financing, and many small businesses continue to employ a home mortgage as a source of additional financing. These methods of financing provide a ready, albeit unstable, form of financing which can easily create the first barrier to entry.

The typical home in America is worth approximately \$120-140,000. Even assuming that the home is owned outright by the entrepreneur, the amount of financing which might be reasonably expected to be derived in this manner is less than \$100,000. Although this amount of money is not insubstantial, it certainly is not sufficient to capitalize more than the smallest of businesses in the telecommunications industry. One need only consider that the cost of constructing and operating a very small paging company, using only three base stations, a terminal, telephone lines, inventory, and minimum of administrative costs would easily consume the initial investment in less than a year.

³ SBT agrees with the Commission's conclusion that the existing lack of minority participation in the industry arises out of a lack of equal employment of women and minorities in positions of responsibility throughout the telecommunications industry. Although women continue to make strides at upper level positions and have typically occupied secretarial positions, there is a dearth of female technicians and middle managers, which portion of the industry forms the most common pool for new entrepreneurs. SBT members report that female/minority marketing and sales personnel are slowly gaining representation, but that equality is far from achieved and much effort will be necessary to attain status which demonstrates parity with men. The problem of equality of opportunity is even more pronounced for minorities.

To offset the high capitalization costs of market entry, the start up company must begin its efforts in a conservative manner and continue its efforts employing conservative business strategies for some extended period thereafter. A pay-as-you-go strategy, with risk adverse decisions, becomes necessary to assure survival of the small business during the unprofitable beginning. Indeed, it is not unusual for the small business owner to receive comparably low remuneration for his efforts during the building years of his business. A business strategy which is too aggressive places at risk the business and the personal assets of the small business operator. Accordingly, it is important to recognize that many small business operators begin their careers by risking not only their business assets but their personal assets.⁴ This fact, when contrasted with the risks borne by large corporations employing investor money at no risk to the corporate officers' personal holdings, is the central delineating factor between the approach of small business versus large in its entrance into markets, even following each's establishment and maturation.

SBT does not suggest that the Commission take steps to change this wholly natural element of law and the effect of the existence of a corporate identity. It is the natural state of business and the risk attendant with the formation of new firms. Rather, SBT beckons the Commission to recognize this fact in its future actions, employing its knowledge of this natural phenomenon to understand that if its policies create too great a risk for small business, regardless of the promised rewards, the likelihood of small business participation is greatly

⁴ Personal financing, i.e. savings, SBA loans, and family gifts, was reported to be the most common source of start up capital for businesses responding to the SBT Survey.

reduced. To appreciate the dynamic at work, one need only consider the consequences of a middle-income family member discussing that the house has been mortgaged to pay for an auctioned IVDS license, which the small investor is certain will be worth a fortune in the future, despite the absence of commercially available equipment to deliver the services. Even successful small operators would find it difficult to risk it all on the glittering promises of each new emerging technology.

The second common element of small business is that it is usually local. It is not uncommon for the entire market served by a small telecommunications company to be contained in only one or two counties. In large metropolitan areas, it may only be within a portion of a single city. The reasons are obvious. Expansion over larger areas requires additional capital for construction of additional sites, a larger sales force, a larger distribution network, and often additional telephone lines to route billing traffic, etc. back to a central location. In addition, expansion creates greater costs associated with competition with more carriers operating throughout the larger geographic area, which may reduce price per unit while increasing the need to engage in expensive advertising and promotion. Although a large corporation might be easily able to finance large scale initial service offerings, small business must grow incrementally to absorb the costs of expansion in a shorter period, while remaining profitable. There are no \$100 million bond offerings for small business, whereby bond investors are promised that the debt instruments will be retired in eight or ten years. There is a local banker, who demands payment quickly and regularly or the business and the family home will face foreclosure.

Given the high cost of geographic expansion, many small businesses look, instead, to expansion of the product and services lines they offer within their local market.⁵ Many small telecommunications companies offer dispatch and paging and cellular resale and other telecommunications products in their existing market. Each product or service is added as a more cost effective method of revenue enhancement than attempting to build a larger, more complicated system across a larger region. Such techniques are common in other industries, e.g. retail, where a small shop owner is more likely to add a line than to add another store, selling the same goods and services. Although many small businesses have a core service, e.g. SMR or paging or IMTS, those small businesses have leveraged their customer base to add additional services, sometimes with sufficient success to actually change their core service.

This additional economic fact is important for the Commission to consider in its future activities. SBT has noted that the Commission's regulatory efforts appear to be guided toward the creation of ever larger telecommunications systems across larger and larger regions. Until a few years ago, the Commission had rarely experimented in regulation of nationwide telecommunications systems, choosing instead to create local systems which might later develop into national systems. Today, the Commission has numerous ongoing proceedings which promote the creation of systems across entire economic areas, the smallest of which is six or more counties in size, including some nationwide offerings. As stated above, this threshold requirement, that new systems be constructed throughout arbitrarily large areas, is often too

⁵ Not a single response to the SBT Survey listed as a goal, access to greater geographic regions for provision of services.

expensive for small business to justify and creates a substantial barrier to market entry for those persons. It provides no great opportunity for a small business to obtain a license to serve a large geographic region if that business cannot support the mandatory construction and operation costs of that service across a wide area.

The third common element of small business is that it must be "profitable" as that term used to be defined. That is, the total cost for the production and sales of goods and services is less than the gross revenue derived by operation of the business. Were this not so, the small businesses, without access to debt financing and the creative means to finance same, would rapidly fail. This point is quite important in determining future regulatory policy. It is a small matter to create a regulatory policy which will enable a large corporation to derive a true profit after a ten-year build out and start up period. The large corporation simply finances its efforts through stock sales and bonds tied to the ten-year projections. It is an entirely different matter to adjust telecommunications policy so that a small industry participant can profit by delivery of the service employing a much shorter time period. Absent delivery of profit in a shorter time period, the small operator's loans will be called and the business will fail.

The Commission's mandate to deliver comprehensive regulation in the delivery of telecommunications goods and services requires that the agency look to the future. Nothing should inhibit the agency's efforts toward long-range, as well as short-range, planning for the future development of telecommunications. However, the Commission is often impatient in its efforts, seeking to leap forward toward the creation of bold new services over vast geographic

areas. Although attractive from a regulatory position of wanting to deliver quickly such services to the American public, those same pressures to move rapidly result in rules which demand that providers of those services commit to delivery in relatively short periods. Given this effect, small business is excluded from the process due to its inability to commit to deliver a service which cannot be made profitable and compliant within the Commission's construction deadlines. The lack of financing to absorb the costs of such construction over a longer period also creates a tangible barrier to entry for small business.

These three barriers or tests (i) severe limitation of access to capital; (ii) economic incentives to remain local in nature; and (iii) need to maintain profitability, are the most common characteristics among small telecommunications providers. (Hereinafter referred to as the "Capital Test," the "Local Test" and the "Profit Test".) The statements, suggestions, recommendations and observations made herein to assist the Commission in meeting its obligations arising out of Section 257 will all reflect the existence of these common elements affecting small business entry into telecommunications. For no recommended course which does not take into account all three of these facts will succeed in providing greater market access for small business. These three common characteristics must be employed as litmus tests of rationality for future agency action to maintain small business investment and activity throughout the telecommunications marketplace. If any agency proposal does not take into account any and all of these factors, it is SBT's studied opinion that the agency's proposal is unlikely to provide any true benefit for or participation by small business.

SPECTRUM ALLOCATION POLICIES

Of primary interest to small business is its access to radio spectrum in manners which allow smaller participants access to markets and the ability to grow. Without an ability to gain radio licenses and additional channels, start up companies are relegated to second class status, merely selling the services of larger carriers. Not only does this condition lessen the ability of small companies to enter markets, the lack of market power in reselling services places small distributors at a distinct disadvantage in negotiating compensation from larger carriers. As Congress was aware in its creation of the Telecommunications Act of 1996, the resale market is controlled by the largest carriers which either limit participation by resellers or control the ability of resellers to become profitable.

The small operator who does not wish to rely on large carriers' charity for his livelihood must then look to alternative offerings, such as dispatch, paging and IMTS, all which require licensing, i.e. spectrum. The decision to obtain authority to operate radio systems places the small operator in competition with large carriers for spectrum resources. Given the Commission's recently articulated agenda in many proceedings involving the auction of spectrum for operation of larger systems across large economic areas, this competition has disfavored small business from the outset. The Commission's dependence upon auctions for distribution of licenses, to the exclusion of many other licensing methods, has created an obvious disadvantage for small operators. In addition, the auction of spectrum across large areas fails the Capital Test, in that it requires an entity with scarce resources to pay more for use of radio spectrum.

Perhaps most disturbing is the differing approach applied to spectrum demand as between large business and small. Accordingly, an overview of recent phenomena between these groups and the Commission's participation in this activity will best illustrate the problems suffered by small business in obtaining the spectrum necessary to commence operations and to grow and thrive. SBT, therefore, respectfully offers this overview.

Demand For Radio Spectrum By Publicly-Traded Corporations

Demand for radio spectrum is fueled by many sources, primarily those persons and entities which insist that operation of emerging technology on exclusively allocated spectrum is required to bring to the market new services. Such new services include High Definition Television, Personal Communications Services, interactive services and increased offerings of land mobile radio or mobile data services.

With the advent of broad band technologies which employ swaths of spectrum to provide rapid transmission of digital signals, the cry from the largest carriers has been to distribute spectrum in ever larger blocks across increasingly larger geographic areas. The articulated need is allegedly technology-driven, however, a review of the instances where the agency has complied with this demand for spectrum would demonstrate that the actual application of many of these vaunted technologies and the services which they are to provide in the marketplace lags far behind the application of the spectrum for financial purposes by the recipients. It appears, therefore, that the ever-increasing demand for distribution of spectrum is not singularly rooted in a need to deliver new services and technologies to the market. There are even valid questions

as to whether the market contains sufficient demand for the new technologies to justify these methods of spectrum distribution.

Even the Commission is caught in this technical dialectic of spectrum policy -- choosing to "refarm" traditionally private radio spectrum to decrease the bandwidth of millions of systems over the next five years, while distributing ever-widening bands of spectrum for commercial uses. Stated in another way, small operators are required to gain spectrum efficiency through use of *less* bandwidth, while large commercial operators are encouraged to gain efficiency through use of *more* bandwidth. This wholly inconsistent approach to spectrum policy, based on the same agency's opposite approaches to essentially the same problem, spectrum demand, is quite puzzling. One manner of reconciling these opposite approaches is by an admission that the agency is presently driven by an agenda which favors an industrial policy that supports uses of radio spectrum for purposes not envisioned by the Communications Act, but one which is wholly reflective of the manner in which publicly-traded corporations gain necessary financing for acquisition of spectrum.

If the agency's actions are directed, intentionally or otherwise, at assuring that large enough blocks of spectrum are created to encourage auction participation by large carriers, the Commission is acting contrary to the will of Congress, which discouraged such actions. SBT respectfully suggests that such motivations have crept into the agency's policies and have tainted its use of auction authority, creating market barriers for small business participation in spectrum allocation. This is not to suggest that all uses of auctions are inappropriate or that the federal

government is not entitled to some compensation in its grant of authority for use of a public resource, radio spectrum. Yet, if the agency is to take action in accord with its Congressional mandate, much more consideration must be given to the effect of the agency's use of auction authority as such authority creates ever increasing barriers to entry for small business.

The other possibility is that the agency is exhibiting a prejudice against small business, assuming that a smaller operator is incapable of deploying equipment which employs wide-band technology. SBT's poll of its members demonstrates no such inability in small business. To the contrary, its members overwhelmingly favor the use of newer technologies to increase the capacity of existing systems, even if such changes would require change-outs of existing facilities. Many members even point to the fact that much of the research and development of land mobile technology, including those which added efficiencies, began with the efforts of small operators. Therefore, there is historical evidence to the contrary of the Commission's overarching approach, which appears to be biased in favor of granting larger bandwidth to geographic area-based commercial carriers, while reducing the operational bandwidth for site specific systems.⁶

⁶ It has not gone unnoticed that the Commission often justifies its actions by claiming greater administrative efficiencies via the licensing of wide-area systems. However, the Commission should balance its alleged gain of efficiencies against the cost of small business competitiveness. The desire of small business to survive and grow should not be deemed to be at odds with the agency's agenda. Instead, some accommodation between the two must be reached.

The Valuation Equation

Often overlooked in the discussion of market entry barriers for small business are the underlying financial incentives in bringing to the market new spectrum reserves. Radio spectrum was formerly viewed as an electronic means to deliver services to the marketplace. Now, companies have adopted the view that spectrum is purely a commodity which alone is deemed a valuable asset that translates its value to the bottom line of corporations and fuels stock purchasing decisions. This phenomenon began to take root with the introduction of cellular radio services and the valuation techniques for businesses which sprang from regional, then nationwide, paging efforts. Given the speed in which new companies and services were coming to the market and the optimism regarding each's ability to deliver future profits, analysts began employing new methods of valuing telecommunications companies.

No longer were telecommunications companies being valued by analysts employing traditional profit and loss theories. Instead, reliance on spectrum inventory, cash flow, regulatory means toward exclusive operations, market based licensing, slow growth potential, per pop. calculations, and the deregulation of wide-area integrated systems has changed the valuation methods for telecommunications companies. A review of many of the largest telecommunications concerns will demonstrate that the ability to make a traditional profit, the former best indicator of a healthy marketplace, and the efficient delivery of a valuable service, has been largely abandoned.⁷

⁷ The Commission need look no farther than the pages of the trade periodicals to determine the status of the largest entities in the industry. Almost all recent financial reports focus on new lines of credit or rating of debt instruments. Few report traditional profits.

This change in valuation techniques, which continues to fuel the demand for stocks and bonds from publicly-traded corporations, has provided a new path to financial success for many companies. Whereas, in the past, companies would point with pride to their after-tax profits and dividends to shareholders, now telecommunications companies point to their cash flow (usually employed to service bond debt), dismissing the red ink at the bottom line as a natural byproduct of an aggressive merger and acquisition strategy, including the costs of build-out and capitalization. Yet, despite these companies' seeming financial success and market acceptance, even the simplest consideration of the matter would lead one to declare that each of these concerns must someday, somehow, demonstrate the ability to make a profit. In the dizzying world of telecommunications and the unusual methods of assessing financial health employed in the industry, a company can create a patina of financial health which will mask an underlying deficiency in its corporate financing.

Unlike companies which produce a tangible product, e.g. steel, automobiles, or computers, telecommunications companies sell services. Profitability is based on the delivery of X amount of airtime from a radio facility for Y dollars to deliver a particular service to a portion of the marketplace. Accordingly, the opportunity to achieve real profitability is based on the size of the market, the number of persons which can be accommodated by each radio facility, and the demand for the service. Technology has provided the means for delivery of enormous amounts of service from radio facilities, so "inventory" is no longer the problem it once was. Therefore, profitability has become dependent solely on market size and public demand. Unfortunately, many investment counselors appear to be laboring under the specious

presumption that demand exists for all new or existing telecommunications services. This is not true. Yet, this false premise is buoyed by questionable methods for valuing the spectrum licensed to publicly-traded corporations.

To forestall the inevitable erosion of confidence in companies which continue to fail to show a profit and to delay or finesse away the effects of reckoning, many of these telecommunications concerns allow themselves to be sold to larger telecommunications giants. Indeed, many companies are now created with the specific intent of positioning themselves for future sale. These sales create greater concentration of spectrum resources in the hands of fewer entities, which continue to increase their offerings to the public, albeit within a less competitive environment. The American public loses an alternative, competitive, source of services. And often the services offered by the concentrated, larger concern are not equal to those offered by the small local or regional carrier which previously existed. Greater emphasis on urban markets to the exclusion of rural and niche markets is often deemed more cost effective, and some areas, which might have supported smaller carriers' efforts, find that their limited population base is insufficient to attract the attention of the larger carriers.⁸ And jobs migrate from lesser populated areas to urban markets, following the ownership of the acquiring carrier.

The larger concerns often engage in faux price competition for consumer dollars. Unlike true competition, the price competition in the telecommunications industry often does not

⁸ A review of the cellular marketplace would quickly demonstrate that many areas still are without service because the economies of construction would not justify the investment to a large entity. However, those same areas are receiving services from small entrepreneurs.

represent economies of scale or lower costs for supplied goods or more efficient delivery of services. For example, consumers can now obtain paging services in major markets for less than four dollars a month. The paging unit is bundled into the sale and the consumer is obligated to sign up for at least a year's service. However, one year of payments (excluding hidden charges such as mandatory insurance and maintenance contracts) would equal only approximately \$50 per year in revenue. Considering that the cost of a typical, new paging receiver is also \$50; and adding to that the carrier's costs of construction and maintenance of the radio paging system which supplies the signal, it is apparent that such pricing is intentionally undervalued.⁹ Although the consumer receives a short-term benefit in lower prices for services, the long-term effect of arbitrarily low prices, which do not compensate carriers for the cost of delivery of service and equipment, will eventually take its toll on the stability of the industry. However, the industry is presently allowed to sustain itself with investor dollars to offset unprofitable pricing techniques. This is, of course, a false method of gauging financial health.

These bundling methods and faux pricing schemes are the exclusive tools of larger carriers. The impact of this numbers game is felt by smaller carriers who must derive a true profit to stay afloat. A smaller carrier who must make payments directly from sales of goods and services, and not from sales of debt instruments and stock, is at a distinct disadvantage in today's marketplace. Price competition, which appears to be advantageous for consumers of services, is not exclusively the byproduct of economies of scale, but are often efforts toward

⁹ Pricing competition is of great concern to small business, particularly when the competing carrier engages in bundling techniques to achieve a competitive advantage, or engages in unfair price competition with its own resellers.

concentration of customers for the purpose of propping up stock prices. Accordingly, these pricing methods create a brief advantage for consumers of services, while undermining the value of investment for millions of stockholders.

Again, the agency must recognize the difference between the mere appearance of success in the delivery of services to the American public, and the creation of economic healthy concerns via profitable operations. If the Commission ignores these effects on small business, the Commission is ignoring a fundamental barrier, i.e. the Profit Test discussed above. SBT respectfully suggests that, thus far, the Commission has turned a blind eye to this market activity or has interpreted the activity as beneficial to consumers. Yet, consumer benefits are not found when the activity ultimately reduces the number of competitors in a market, resulting in much higher prices to offset earlier give-aways.

In effect, the agency has adopted the valuation techniques employed by the larger carriers in touting their success. The agency's articulated review of the paging market, for example, has stressed the number of customers which are now receiving that service and the lowering of prices to consumers to receive those services. What the Commission has failed to consider is whether the explosion in the paging marketplace is due to arbitrarily set low prices for equipment and services, often below the cost of delivery. SBT's examination of the paging market fully demonstrates that large telecommunications carriers are engaging in this type of pricing and that the effects are limiting smaller operators' opportunity for profitable growth due to their inability to play the numbers game on Wall Street.

As explained above, the valuation methods of telecommunications companies now center on the commodity value of spectrum, combined with the ability to generate cash flow and consumer numbers. When traditional profit is given the lowest weight in the valuation equation, such marketing techniques are held to be prudent to obtain success in the financial markets. And since larger telecommunications companies have greater ability to delay the requirement of true profitability, these methods of attracting financial support in the form of increased stock and bond sales work in tandem to create a synergism of debt/cash flow valuation, providing a patina of corporate health.

In another environment, this use of investor dollars to offset unprofitable activity which is designed to provide the appearance of progress without the tangible proof of economic health would be referred to as "kiting." Kiting would not be possible for many corporate speculators but for the accepted value of radio spectrum as a portion of the valuation techniques applied to telecommunications companies. Perhaps the most disturbing element of valuing corporations by assigning large book values to spectrum is the fact that each company employs a unique method of valuation for spectrum. A review of the filings made with the Security and Exchange Commission would show a different method employed by each company, presumably based on its own needs. For example, persons have evaluated the techniques employed by one company and have found that spectrum which was purchased from small carriers at a given sales price was valued at ten times the purchase price when placed on the larger, purchasing company's books. The reasons for this startling inflation of spectrum value is unexplained by the company, but the effect on continuing stock sales is obvious.

Armed with the receipts from stock sales and bond offerings, these concerns then turn their attention to acquisition. Acquisition for acquisition's sake is well founded throughout the telecommunications industry. Although the cost of acquisition rarely justifies the value to the company if a traditional profit analysis were applied, the achievement of greater acquisitions continues to support stock and debt offerings. This technique, employed by many corporations to forestall the demand for true profitability, is driving the demand for more spectrum.

Demand for commodity spectrum to employ as an identifiable asset within the books of a corporation becomes more intense as the demand for true profitability by investors approaches. This intense demand has been channeled into lobbying efforts before Congress to provide broadcast entities 6 MHz of spectrum for HDTV, to create timetables for PCS auctions, to bring IVDS auctions forward, and many other indicators. Of the three previous examples, each may be viewed as wholly speculative, since the services to be provided by each have no proven record of consumer demand in the market sufficient to justify the anticipated cost of creating such service. SBT questions whether two of the above services will ever find a viable market. However, the appearance of innovation backed by the radio spectrum assets to potentially deliver the services, is sufficient to engage in further kiting. It is also the primary impetus behind the demand for reallocation of spectrum from federal to private use.

It should be noted that other forces are present on the political landscape which have intensified the demand for spectrum reallocation. Companies and market segments have made bold claims regarding the new services and emerging technologies which will come from